

**VILLAGE OF PHILO**

**AUDIT REPORT**

**JANUARY 1, 2009 - DECEMBER 31, 2010**

**Wolfe, Wilson, & Phillips, Inc.  
37 South Seventh Street  
Zanesville, Ohio 43701**





# Dave Yost • Auditor of State

Village Council  
Village of Philo  
565 Water Street  
Philo, Ohio 43771

We have reviewed the *Independent Auditors' Report* of the Village of Philo, Muskingum County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Philo is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 11, 2011

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**VILLAGE OF PHILO  
MUSKINGUM COUNTY  
JANUARY 1, 2009 - DECEMBER 31, 2010**

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**WOLFE, WILSON, & PHILLIPS, INC.**  
**37 SOUTH SEVENTH STREET**  
**ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

Mayor and Village Council  
Village of Philo  
565 Water Street  
Philo, Ohio 43771

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Village of Philo's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village of Philo has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Instead of the combined funds the accompanying financial statements present for 2010 and 2009, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2010 and 2009. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Philo's combined funds as of December 31, 2010 and 2009, and their changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Philo, Muskingum County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also require the Village to include Management's Discussion and Analysis for the year ended December 31, 2010 and 2009. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2011, on our consideration of the Village of Philo's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
May 12, 2011

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Taxes	\$ 41,708	\$ -	\$ 41,708
Intergovernmental	27,211	33,788	60,999
Miscellaneous	7,584	-	7,584
<b>Total Cash Receipts</b>	<u>76,503</u>	<u>33,788</u>	<u>110,291</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	7,591	-	7,591
Transportation	24,958	32,817	57,775
General Government	35,175		
Capital Outlay	16,761	-	16,761
<b>Total Cash Disbursements</b>	<u>84,485</u>	<u>32,817</u>	<u>117,302</u>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	(7,982)	971	(7,011)
<b>Fund Cash Balances, January 1</b>	<u>80,588</u>	<u>6,173</u>	<u>86,761</u>
<b>Fund Cash Balances, December 31</b>	<u>\$ 72,606</u>	<u>\$ 7,144</u>	<u>\$ 79,750</u>

See notes to financial statements.



**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Cash Receipts:</b>			
Property Taxes	\$ 36,633	\$ -	\$ 36,633
Intergovernmental	34,721	32,756	67,477
Miscellaneous	-	-	-
<b>Total Cash Receipts</b>	71,354	32,756	104,110
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	7,119	-	7,119
Transportation	32,328	30,808	63,136
General Government	52,228	-	52,228
<b>Total Cash Disbursements</b>	91,675	30,808	122,483
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	(20,321)	1,948	(18,373)
<b>Fund Cash Balances, January 1</b>	100,909	4,225	105,134
<b>Fund Cash Balances, December 31</b>	\$ 80,588	\$ 6,173	\$ 86,761

See notes to financial statements.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - PROPRIETARY FUND TYPE  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	Enterprise Fund	
	2010	2009
<b>Operating Cash Receipts:</b>		
Charges for Services	\$ 107,523	\$ 95,331
<b>Operating Cash Disbursements:</b>		
Personal Services	22,850	32,923
Contractual Services	14,469	15,033
Supplies and Materials	4,898	15,950
Capital Outlay	10,909	92,375
<b>Total Operating Cash Disbursements</b>	53,126	156,281
<b>Operating Income</b>	54,397	(60,950)
<b>Non-Operating Cash Receipts:</b>		
Debt Proceeds	-	65,000
<b>Total Non-Operating Cash Receipts</b>	-	65,000
<b>Non-Operating Cash Disbursements:</b>		
Debt Service:		
Principal Payments	14,808	2,754
Interest Payments	1,516	866
<b>Total Non-Operating Cash Disbursements</b>	16,324	3,620
<b>Net Receipts Over Disbursements</b>	38,073	430
<b>Fund Cash Balances, January 1</b>	86,434	86,004
<b>Fund Cash Balances, December 31</b>	\$ 124,507	\$ 86,434

See notes to financial statements.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Philo, Muskingum County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water, refuse collection, cemetery maintenance, street maintenance and police and fire services.

The Village participates in the Ohio Governmental Risk Management Plan public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self insurance risk management plan. Member governments pay annual contributions to fund the Plan. The Plan pays judgments, settlements and other expenses resulting from covered claims exceeding the member's deductible

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

**C. Cash and Investments**

Certificates of deposit are valued at cost.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**Street Construction, Maintenance and Repair Fund** – This fund is used to account for gasoline tax monies for constructing, maintaining and repairing Village streets.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**Enterprise Funds**

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

**Water Fund** – This fund is used to account for charges for services from residents to cover the cost of providing water services.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and object level of control and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation. Unencumbered appropriations lapse at year end.

**Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The Village maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2010	2009
Demand deposits	\$ 154,037	\$ 122,975
Certificate of deposits	50,220	50,220
Total Deposits	\$ 204,257	\$ 173,195

**Deposits:** Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 88,820	\$ 76,503	\$ (12,317)
Special Revenue	22,000	33,788	11,788
Enterprise	61,000	107,523	46,523
Total	\$ 171,820	\$ 217,814	\$ 45,994

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 169,000	\$ 84,485	\$ 84,515
Special Revenue	28,000	32,817	(4,817)
Enterprise	82,000	69,450	12,550
Total	\$ 279,000	\$ 186,752	\$ 92,251

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 89,698	\$ 71,354	\$ (18,344)
Special Revenue	20,000	32,756	12,756
Enterprise	144,000	160,331	16,331
Total	\$ 253,698	\$ 264,441	\$ 10,743

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 188,000	\$ 91,405	\$ 96,595
Special Revenue	24,000	30,808	(6,808)
Enterprise	168,000	159,901	8,099
Total	\$ 380,000	\$ 282,114	\$ 97,886

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**3. BUDGETARY (Continued)**

Contrary to Ohio Revised Code Section 5705.36, appropriations exceeded actual receipts for several funds in 2008 and 2007.

Contrary to Ohio Revised Code Section 5705.41(D), there were expenditures that were not properly certified.

Contrary to Ohio Revised Code Section 5705.41(B), the Village had expenditures that exceeded appropriations at the legal level of control.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**5. DEBT**

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest rate
Ohio Public Works Commission CR21C	\$ 38,440	2.00%
Citizens National Bank Series 2009 Bonds	53,000	3.90%
Total	\$ 91,440	

The OPWC Loan relates to the water tower. The loan is collateralized by water receipts.

The Bonds were issued in 2009 so the Village could purchase land. Payments are made annually.

Amortization of the above debt, including interest is scheduled as follows:

Year	OPWC	Bonds
2011	\$ 3,619	\$ 14,567
2012	3,619	14,578
2013	3,619	14,573
2014	3,619	14,546
2015	3,619	-
2016-2020	18,095	-
2021-2025	9,048	-
Total	\$ 45,238	\$ 58,264

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**6. RETIREMENT SYSTEMS**

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2010 and 2009, OPERS members contributed 10.0% of their wages, respectively. The Village contributed an amount equal to 14.00% of participants gross salaries in 2010 and 2009, respectively. The Village has paid all required contributions through December 31, 2010.

**7. RISK MANAGEMENT**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Ohio Government Risk Management Plan (The "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 700 Ohio Governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 17.5% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 17.5% or \$43,750 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three years.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, the latest information available.

	<u>2009</u>	<u>2008</u>
Assets	\$ 11,176,186	\$ 10,471,114
Liabilities	(4,852,485)	(5,286,781)
Retained Earnings	<u>\$ 6,323,701</u>	<u>\$ 5,184,333</u>

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS.**

Village of Philo  
Muskingum County  
565 Water Street  
Philo, Ohio 43771

We have audited the financial statements of Village of Philo as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 12, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village of Philo's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness..

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider Findings 2010-02 through Finding 2010-07 described in the accompanying schedule of findings to be a material weakness.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village of Philo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2010-01 through Finding 2010-03.

We noted certain immaterial instances of noncompliance that we have reported to the management of Village of Philo in a separate letter dated May 12, 2011.

Village of Philo's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village of Philo's responses and, accordingly, we express no opinion on it.

This report is intended for the information of the Village's management, Clerk, and Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
May 12, 2011

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

***FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS***

**FINDING NUMBER 2010-01**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated.

The Village’s legal level of control is at the object level. We noted the following exceptions to 5705.41(B).As of December 31, 2010 and 2009, expenditures exceeded appropriations in the following funds:

Fund and Object Level	Year	Appropriations	Expenditures	Variance
General – Supplies	2010	\$ 8,000	\$ 8,979	\$ (979)
General- Treasurer Fees	2010	1,000	1,000	(310)
Street - Salaries	2010	8,000	14,501	(6,501)
Water – Capital Outlay	2010	15,000	27,227	(12,227)
Street - Salaries	2009	6,000	10,609	(4,609)
Street - Supplies	2009	18,000	20,199	(2,199)
Water - L/B Salaries	2009	30,000	30,285	(285)
Water – Contracts	2009	12,000	18,653	(6,653)

We recommend that the Village review expenditures so that they do not exceed appropriations.

Client Response: Client concurs on finding and will monitor appropriations versus expenditures more closely.

**FINDING NUMBER 2010-02**

**Noncompliance and Material Weakness**

Ohio Admin. Code Section 117-2—02(A), requires all public offices to maintain, an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Village’s accounting system and accounting records did not enable the Village to document compliance with finance-related legal requirements, including various sections of Ohio Revised Code Chapter 5705 as follows:

Appropriations were not posted to the appropriation ledger. As a result, there was no method established whereby the fiscal officer could determine if unencumbered appropriations were available for expenditure. Village management could not monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b><i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i></b>
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**FINDING NUMBER 2010-02 (Continued)**

Estimated receipts were not posted to the receipts ledger. As a result, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file amended certificates of estimated resources when needed.

We recommend the Village Clerk-Treasurer post appropriation amounts to the appropriation ledger, once appropriations are adopted by the Village Council and certified by the Budget Commission. This would enable the Clerk-Treasurer to utilize the encumbrance method of accounting and document compliance with finance-related legal requirements. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to Council as a tool to manage the Village. Guidance for maintaining the appropriations ledger is now included in Ohio Admin. Code Section 117-2-02 (D)(3).

We recommend budgeted and actual receipts be posted to the receipts ledger as recommended in Ohio Admin. Code Section 117-2-02(D)(2), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations. This would enable the Clerk-Treasurer to document compliance with finance-related legal requirements concerning the filing of estimated resources and any amendments thereto.

Client Response: We agree with finding and will incorporate appropriations and budgeted receipts in the accounting records.

**FINDING NUMBER 2010-03**

**Noncompliance Citation and Material Weakness**

Ohio Revised Code Section 5705.41(D) states in part that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

Prior certification was not obtained for 100% of the expenditures tested for 2010 and 2009.

The Village Fiscal Officer should certify funds before each payment is made through the issuance of a regular, blanket, or super blanket purchase order. Blanket certificates should be issued for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of council against any specific line item account over a period not running beyond the end of the current fiscal year. A super blanket purchase order can be completed for any amount for expenditures and contracts from a specific line item appropriation account in a specified fund for most recurring or reasonable predictable operating expenditures. This is not to extend beyond the current year. More than one super blanket may be outstanding at one particular time for a particular line item appropriation account.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b><i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i></b>
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**FINDING NUMBER 2010-03 (Continued)**

Also, as an alternative, the Village can issue then and now certificates for expenses up to \$3,000. Then and now certificates allow the Village's Fiscal Officer to certify that both at the time the expenditure was made and at the time that the certification is completed, sufficient funds are available. These certificates can be certified by the Village's fiscal Officer without subsequent authorization from the Village Council. However, then and now certificates issued by the Village's Fiscal Officer over \$3,000 must be authorized by the Village Council within thirty days after payment.

Client Response: Client agrees with finding and will try to monitor more closely.

**FINDING NUMBER 2010-04**

**Noncompliance Citation**

Ohio Revised Code Section 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Furthermore, Ohio Revised Code Section 2921.42(G)(1)(a) indicates that a public contract means the purchase or acquisition, or a contract for the purpose or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either.

Ohio Revised Code Section 102.03 (D) provides that no public official or employee shall use or authorize the use of the authority or influence of his office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

1998 Ohio Ethics Commission Opinion No. 98-004 states, in part, that Division (A)(1) of Section 2921.42 of the Revised Code, and Division (D) of Section 102.03 of the Revised Code, prohibit a Village Clerk-Treasurer from authorizing, or employing the authority or influence of her office to secure the authorization of, her husband's contract of employment, and from discussing, deliberating, or otherwise participating in any part of the Village's decision-making process authorizing or approving her husband's contract of employment or the continuation, implementation, or terms and conditions of her husband's contract of employment.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b><i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i></b>
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**FINDING NUMBER 2010-04 (Continued)**

On November 11, 2001, Village Council authorized the hiring of Becky Hutcheson as assistant to the Clerk-Treasurer, Samuel Hutcheson. Becky Hutcheson is the wife of Samuel Hutcheson. Village Council re-affirmed the hiring of Becky Hutcheson with passage of Ordinance 2003-6A which was introduced on December 16, 2003.

This matter was referred to the Ohio Ethics Commission as a possible violation of Ohio Revised Code Section 2921.42(A)(1) and 102.03(D) as a result of the prior audit report dated November 12, 2003. This employment situation has not changed.

Client Response: The Village Solicitor believes the Village has followed the Ohio Revised Code in this matter.

**FINDING NUMBER 2010-05**

**Material Weakness**

Management has a key role to play in ensuring the Village establish and maintain effective internal controls. Accordingly, Village management must establish procedures to ensure and document that the Village is complying with applicable legal requirements.

The results of our audit indicated a weakness in management's role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village's staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies

Monitoring controls could be implemented where Village Council could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend Village Council become more actively involved in monitoring the financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. Village Council should then review the validity of the computations and attest to the reconciliation's accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly the following records: receipts ledger, appropriations ledger, cash journal, budget vs, actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each members performing the review and the date of the review was performed.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b><i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i></b>
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**FINDING NUMBER 2010-05 (Continued)**

The presentation of these records and reviews by Village Council should be noted in the Council's minutes. Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are Current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations occur, is the reason documented, and properly budgeted for?
- Are anticipated receipts being received in a timely manner.

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village and use this as a tool to assist them in complying with applicable Ohio laws and regulations.

Client Response: The Clerk-Treasurer will monitor budgetary items monthly and will also incorporate appropriations and budgeted receipts in the accounting records.

**FINDING NUMBER 2010-06**

**Material Weakness**

The Water Clerk maintained a cash journal for the recording of quarterly payments received and forwarded water payments to the Village Clerk-Treasurer on a monthly basis. However, the Clerk-Treasurer did not issue pay-in orders each month to the Water Clerk. In addition, the Clerk-Treasurer did not issue a pay-in order to the individual forwarding monies from bulk sales to the Clerk-Treasurer.

This weakness resulted in a lack of accountability between the water department collections and the amounts entered in the Clerk-Treasurer's cashbook.

We recommend the Clerk-Treasurer issue a pay-in order to the Water Clerk when she forwards water payments to the Clerk-Treasurer. We also recommend a pay-in order be issued to the individual forwarding bulk water sales monies to the Clerk-Treasurer. The individual turning in bulk water sales should also record the meter reading at that time and turn it in to the Clerk-Treasurer for reviewed for reasonableness.

Client Response: The Clerk-Treasurer will consider using pay-ins for all receipts.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

***FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS***

**FINDING NUMBER 2010-07**

**Material Weakness**

Pay-in orders were not issued by the Clerk-Treasurer for all amounts received by the Village. In addition, we noted multiple instances in which the Clerk-Treasurer either did not post receipts to the accounting records, or did not deposit receipts into the Village depository in a timely manner after they were received.

As a result, source documentation was not available in many instances to indicate to which account code revenue should be posted. The lack of posting and depositing receipts on a timely basis could also allow errors or fraud to occur and remain undetected by management.

We recommend the Clerk-Treasurer issue a pay-in order when any money is received on behalf of the Village. The pay-in order should be issued in duplicate, with the original given to the person making payment after all information has been entered in the spaces provided. The duplicate should remain in the binding and be used as a posting source to the cash journal. Monies should be deposited as soon as possible and the Clerk-Treasurer should properly safeguard monies until the time the deposit is made.

Client Response: The Clerk-Treasurer will consider using pay-ins for all receipts. The water department receipts are deposited by the water department clerk.

**VILLAGE OF PHILO  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2010**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2008-01	ORC 5705.41(B) Expenditures exceeding Appropriations	No	In current audit as Finding 2010-01
2008-02	Ohio Admin Code 117-02-02 (A) Accounting System	No	In current audit as Finding 2010-02
2008-03	ORC 5705.41(D) expenditures made without prior certification	NO	In current audit as Finding 2010-03
2008-04	ORC 2921.42(A)(1) Public Contracts	No	In current audit as Finding 2010-04
2008-05	Material Weakness: Management role in financial records	No	In current audit as Finding 2010-05
2008-06	Material Weakness: Water Department not getting pay-ins	No	In current audit as Finding 2010-06
2008-07	Material Weakness: Pay-ins not used for all receipts	No	In current audit as Finding 2010-07





# Dave Yost • Auditor of State

VILLAGE OF PHILO

MUSKINGUM COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 21, 2011